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Proposed statement of position : reporting on separately issued summary financial information prepared by state or local governmental units : proposed amendment to the AICPA audit and accounting guide, Audits of state and local governmental units Reporting on separately issued summary financial information prepared by state or local governmental units : proposed amendment to the AICPA audit and accounting guide, Audits of state and local governmental units; Exposure draft (American Institute of Certified Public Accountants), 1993, Feb. 2

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EXPOSURE DRAFT

PROPOSED STATEMENT OF POSITION

**REPORTING ON SEPARATELY ISSUED
SUMMARY FINANCIAL INFORMATION
PREPARED BY STATE OR LOCAL
GOVERNMENTAL UNITS**

**(Proposed Amendment to the AICPA Audit and Accounting Guide
Audits of State and Local Governmental Units)**

FEBRUARY 2, 1993

**Prepared by the Government Accounting and Auditing Committee,
Federal Government Division,
American Institute of Certified Public Accountants**

**Comments should be received by April 2, 1993, and addressed to Anna D. Gowans Young,
Technical Manager, Federal Government Division, File J-1-420, AICPA,
1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1081.**

SUMMARY

This proposed statement of position (SOP) provides reporting guidance for when a state or local governmental unit issues summary financial information in a document that refers to, but does not include, the general-purpose financial statements. It is a proposed amendment to the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units*.

The recommendations in this proposed SOP are effective for reports issued on or after June 15, 1993.

This exposure draft has been sent to persons who have requested copies.

February 2, 1993

Accompanying this letter is an exposure draft of a proposed statement of position (SOP) titled *Reporting on Separately Issued Summary Financial Information Prepared by State or Local Governmental Units*. It has been prepared by the 1991-1992 AICPA Government Accounting and Auditing Committee. A summary of the proposed SOP also accompanies this letter.

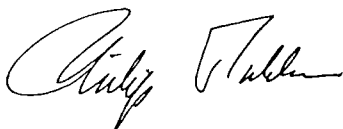
The purpose of this exposure draft is to solicit comments from independent auditors, government auditors, administrators of federal financial assistance programs, and other interested parties. This proposed SOP, when final, will amend the AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units*. It provides reporting guidance for when a state or local governmental unit issues summary financial information in a document that refers to, but does not include, the general-purpose financial statements.

Comments or suggestions on any aspect of this exposure draft will be appreciated. It will be helpful if the responses refer to specific paragraph numbers and include supporting reasons for any suggestions or comments.

Comments on the exposure draft should be sent to Anna D. Gowans Young, Technical Manager, Federal Government Division, File J-1-420, American Institute of Certified Public Accountants, 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1081, in time to be received by April 2, 1993.

Written comments on the exposure draft will become part of the public record of the AICPA after April 1, 1994.

Yours truly,



Philip T. Calder
Chairman
1991-1992 Government Accounting
and Auditing Committee



Douglas P. Sauter
Director
Auditing Standards Division

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(1991–1992)**

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The Government Accounting and Auditing Committee gratefully acknowledges the contributions made to the development of this exposure draft by David Bean, Director of Research, Governmental Accounting Standards Board.

REPORTING ON SEPARATELY ISSUED SUMMARY FINANCIAL INFORMATION PREPARED BY STATE OR LOCAL GOVERNMENTAL UNITS

INTRODUCTION

1. Governmental Accounting Standards Board (GASB) Codification section 2700.104 states, in part:

Some governmental units have for many years published highly condensed summary financial data, usually as "popular" reports directed primarily to citizens. . . . More recently, several professional association committees and individuals have undertaken research and experimentation directed toward the design of highly condensed summary financial statements for governmental units. Such research and experimentation is encouraged, but . . . such statements should supplement, rather than supplant, the comprehensive annual financial report (CAFR) and the separately issued general-purpose financial statements (GPFS). Further, the data in such highly condensed summary statements should be reconcilable with the combined, combining and individual fund and account group statements, and the reader of such statements should be referred to the CAFR and/or the separately issued GPFS of the governmental unit.

SCOPE

2. This statement of position (SOP) provides reporting guidance when a state or local governmental unit issues summary financial information in a document that refers to, but does not include, the GPFS. Guidance on reporting on condensed financial statements and selected financial data that accompany the GPFS from which they were derived is found in AICPA *Professional Standards*, vol. 1, AU sec. 551, "Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents," and AU sec. 552, "Reporting on Condensed Financial Statements and Selected Financial Data."*

CURRENT REPORTING PRACTICES

3. In the absence of authoritative guidance on format and content, summary financial information often differs from financial statements prepared in accordance with generally accepted accounting principles (GAAP) as to—

- Principles of summarization or aggregation.
- Fund structure.
- Principles for eliminations.

* Section 551 provides guidance on reporting on condensed financial statements or selected financial data that accompany audited financial statements in auditor-submitted documents. Section 552 provides guidance on reporting in a client-prepared document on condensed financial statements or selected financial data derived from audited financial statements included in the client-prepared document.

- Reporting budget and actual comparisons.
- Inclusion of component units.
- Note disclosures.

Because of the lack of authoritative guidance on the format and content of summary financial information, the government should exercise discretion in the preparation of the financial information. However, the government should determine whether (a) the summary financial information, including the related notes, is informative of matters that may affect its use, understanding, and interpretation (for example, significant subsequent events, significant contingencies, or restrictions on resources); (b) the summary financial information is prepared on the same measurement focus and basis of accounting as the GPFS; (c) the summary financial information is classified, summarized, and presented in a reasonable manner; and (d) the summary financial information reflects the underlying transactions and events in a manner that presents the summarized data stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in summary financial information.

4. The auditor may be engaged or required by professional standards to report on summary financial information (for example, when the summary financial information is presented in an auditor-submitted document that contains audited financial statements and the auditor's report thereon). The form and content of the data presented and the nature of the document in which the data are presented generally dictate the reporting guidance to be followed.

CONCLUSIONS

5. When a government issues summary financial information based on the guidance provided in paragraph 3, the auditor should follow the guidance in paragraphs 7 through 14. If a government issues summary financial information that differs from the guidance provided in paragraph 3, the auditor should follow the guidance in paragraphs 15 and 16.

6. Summary financial information is presented in considerably less detail than GPFS that are intended to present financial position, results of operations, and cash flows in conformity with GAAP. For this reason, it should be read in conjunction with the entity's most recent GPFS that include all the disclosures required by GAAP. Summary financial information is not the primary accountability document of the government. Summary financial information can only be issued if the government has already issued a CAFR or has separately issued GPFS. The availability of the CAFR or separately issued GPFS should be disclosed in the summary financial information.

7. Because summary financial information presents highlights of government activities during the year and does not constitute a fair presentation of financial position, results of operations, and cash flows in conformity with GAAP, an auditor should not report on summary financial information in the same manner as he or she reported on the GPFS from which they are derived. To do so might lead users to assume, erroneously, that the summary financial information is a fair presentation in accordance with GAAP. For the same reason, the summary financial information should be marked as summary financial information.

8. Because financial statement users may relate consolidated or condensed financial statements to GAAP, the summary financial information should not be labeled as condensed financial information or consolidated financial statements.

9. The summary of significant accounting principles disclosed in the notes to the summary financial information should disclose the method of aggregation used by the government to prepare the summary financial information. The note should also disclose how the method of aggregation materially differs from the principles followed in preparing the GPFS. The explanation of the differences can usually be achieved through narrative explanation. The auditor should consider whether the summary financial information is fairly presented in accordance with the method of aggregation described in the note to the summary financial information. (See paragraph 15, which provides guidance when the summary financial information is prepared on a measurement focus and basis of accounting that differs from the GPFS.)

10. The auditor's report on summary financial information should be based on his or her judgment as to whether (a) the summary financial information, including the related notes, is informative of matters that may affect their use, understanding, and interpretation (for example, significant subsequent events, significant contingencies, or restrictions on resources); (b) the summary financial information is prepared on the same measurement focus and basis of accounting as the GPFS; (c) the summary financial information is classified, summarized, and presented in a reasonable manner; and (d) the summary financial information reflects the underlying transactions and events in a manner that presents the summarized data stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in summary financial information.

11. Auditors should not be associated with offering statements that include summary financial information but do not include GPFS prepared in accordance with GAAP.

12. When the summary financial information and independent auditor's report thereon are presented in a document with other information, the auditor should consider the guidance in Statement on Auditing Standards (SAS) No. 8, *Other Information in Documents Containing Audited Financial Statements* (AICPA Professional Standards, vol. 1, AU sec. 550). SAS No. 8 provides guidance on the auditor's responsibility with respect to information included in a document that is not identified in the audit report.

13. If the auditor concludes that the summary financial information is not fairly stated in all material respects in relation to the GPFS from which it has been derived, the auditor should follow the guidance in paragraph 15. If the auditor concludes that the summary financial information is fairly stated in all material respects in relation to the GPFS from which it has been derived, the basic elements of the auditor's report on summary financial information should include—

- a. A title that includes the word *independent*.
- b. A statement that the auditor has audited the GPFS and a reference to the auditor's report on those financial statements, including the date of that report and a description of any modification of the standard report.
- c. A statement that the accompanying summary financial information is not a presentation in conformity with GAAP, with a reference to the notes to the summary financial information describing the method of aggregation.
- d. An opinion as to whether the information presented in the summary financial information is fairly stated in all material respects in relation to the GPFS from which it has been derived.
- e. The manual or printed signature of the auditor's firm.
- f. The date of the audit report on the summary financial information (this date should be the same as the date of the audit report rendered on the GPFS from which it was derived).

ILLUSTRATIVE REPORT

14. Following is an example of an audit report expressing an opinion on summary financial information prepared in accordance with the guidance provided in paragraph 3.

Independent Auditor's Report

We have audited, in accordance with generally accepted auditing standards, the general-purpose financial statements of [example entity] as of and for the year ended June 30, 19XX (not presented herein), and in our report dated September 15, 19XX, we expressed an unqualified opinion on those general-purpose financial statements.

As explained in Note [x] the accompanying summary financial information of [example entity], as of and for the year ended June 30, 19XX, is not a presentation in conformity with generally accepted accounting principles. In our opinion, however, the accompanying summary financial information is fairly stated, in all material respects, in relation to the general-purpose financial statements from which it has been derived.

[Signature]

September 15, 19XX

15. When a government issues summary financial information in a manner inconsistent with the guidance provided in paragraph 3 (for example, measurement focus and basis of accounting that differ from the GPFS), the auditor should express only an adverse opinion on the summary financial information because of departures from GAAP. (See AICPA *Professional Standards*, vol. 1, AU sec. 508, "Reports on Audited Financial Statements," paragraphs 67 through 69, and AU sec. 552, note 6.)

16. Following is an example of an audit report expressing an adverse opinion on summary financial information prepared in a manner inconsistent with the guidance provided in paragraph 3.

Independent Auditor's Report

We have audited the general-purpose financial statements of [example entity] as of and for the year ended June 30, 19XX (not presented herein). These general-purpose financial statements are the responsibility of [example entity's] management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit of the general-purpose financial statements in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The summary financial information as of and for the year then ended June 30, 19XX presented on pages [xx-xx] significantly differs from generally accepted accounting

principles as to [*specify reason(s) for departure—for example, measurement focus and basis of accounting, method of aggregation and disclosures*].

In our opinion, because of the departures from generally accepted accounting principles referred to in the preceding paragraph, the accompanying summary financial information of [*example entity*], as of and for the year ended June 30, 19XX, is not a presentation in conformity with generally accepted accounting principles.

[*Signature*]

September 15, 19XX

EFFECTIVE DATE

17. The provisions of this SOP are effective for reports issued on or after June 15, 1993.